

DW 06-024

PITTSFIELD AQUEDUCT COMPANY, INC.

Petition for Financing Approval

Order Approving Financing Petition

ORDER NO. 24,600

March 17, 2006

I. BACKGROUND

On February 9, 2006, Pittsfield Aqueduct Company, Inc. (PAC) filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Authority to Borrow up to \$1,141,792, pursuant to RSA 369. PAC's petition was accompanied by the testimony of William D. Patterson, Vice President and Chief Financial Officer of PAC and of Pennichuck Corporation, the parent company of PAC. A copy of the proposed promissory note is attached to his testimony.

In its petition, PAC requests approval to refinance existing long-term debt. This existing debt obligation, in the principal amount of \$1,140,000, is in the form of a promissory note (Existing Note) issued to Pennichuck Corporation on April 24, 1998, and approved by the Commission. *See Pittsfield Aqueduct Company, Inc.* 84 NH PUC 165 (1999). The Existing Note, which matured on April 8, 2005, carried a seven-year term and required payment of interest only, at a rate of 6.5%. PAC notes that Pennichuck Corporation has not called the Existing Note and it remains in force.

PAC testifies that it is necessary to refinance the Existing Note in order for PAC to gain access to the balance of a grant received from the New Hampshire Department of Environmental Services (DES) for significant infrastructure improvements to PAC's facilities in

Pittsfield, New Hampshire. However, because the Existing Note has matured, PAC avers that it must either refinance or pay off the balance owed. PAC states that it is unable to pay off the Existing Note and, therefore, seeks authorization to refinance the obligation.

PAC avers that the terms of the proposed refinancing are acceptable to DES for release of the balance of the grant funds. PAC states that it has negotiated a refinancing of the Existing Note whereby Pennichuck Corporation would issue a new promissory note in the amount of \$1,141,792 on an unsecured basis, with interest at 6% per annum (New Note). The New Note would have a term of two years and would be payable in twenty-four equal installments of principal and interest. PAC estimates issuance costs to be minimal, in the range of \$4,500.

PAC testifies that the proposed refinancing does not increase PAC's indebtedness but merely modifies the terms of the Existing Note. PAC avers that the covenants and restrictions in PAC's other bond and note agreements are not impacted by this proposed refinancing. Because the New Note would merely constitute a refinancing of an equal amount of existing debt at a substantially similar interest rate, PAC states that it did not prepare the financial schedules that usually accompany a financing petition, and requests that the Commission waive the requirements of N.H. Code of Admin. Rules Puc 609.03 to the extent necessary.

On March 8, 2006, PAC filed a Secretary's Certificate that indicates that the PAC Board of Directors has authorized PAC to enter into the financing contemplated in the instant petition.

On March 14, 2006, Staff of the Commission (Staff) filed a letter recommending approval of PAC's requests. Staff indicates that it has reviewed the requests by PAC and believes that, because PAC proposes to refinance an existing debt on reasonable terms, and because the proposed financing has no appreciable impact on PAC's financial circumstances or capital structure, the financing should be approved. Staff also recommends approval of PAC's request for waivers regarding the submission of financial schedules.

II. COMMISSION ANALYSIS

Pursuant to the provisions of RSA 369:1, public utilities engaged in business in this State may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." The New Hampshire Supreme Court has further provided that, consideration of the public good involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates, in order to ensure the public good is protected. See *Appeal of Easton*, 125 N.H. 205, 211 (1984).

In the instant proceeding, PAC seeks authorization to enter into the New Note with its parent company, Pennichuck Corporation, to borrow \$1,141,792 for the purpose of refinancing the Existing Note in the same principal amount. The New Note calls for PAC to repay the obligation in twenty-four equal monthly installments of principal and interest. The New Note carries an interest rate of 6% per annum. This interest rate is a reduction of 0.5% from the existing note being refinanced, lowering PAC's overall cost of capital. Further, PAC has indicated that access to the balance of a grant from DES, used for infrastructure improvements in the Pittsfield system, is contingent on PAC beginning a repayment of its debt to

Pennichuck Corporation. Because grant funds carry no cost to ratepayers, they are often a sound source of monies for needed capital improvements. For these reasons, we find the proposed financing to be consistent with the public good.

PAC has also requested a waiver from the requirements of Puc 609.03, which requires utilities to file financial schedules with a petition for financing. Because, according to PAC, the proposed refinancing does not increase its indebtedness, does not impact the covenants and restrictions in its other bonds and note agreements, and is on equal or more favorable terms than the Existing Note, we see no need for financial schedules intended to illustrate the impact of the proposed financing on the financial statements and capital structure of a utility. Accordingly, we will approve PAC's waiver request. As in other financings, we direct PAC to file copies of the executed loan documents once the transaction is complete.

Based upon the foregoing, it is hereby

ORDERED, that the request to undertake the financing proposed, under the terms and conditions contained in PAC's petition, and for the purpose as outlined herein, is hereby **APPROVED**; and it is

FURTHER ORDERED, that PAC's request for waiver from certain requirements of Puc 609.03 pertaining to financial schedules is hereby **APPROVED**; and it is

FURTHER ORDERED, that PAC shall file with the Commission true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transaction contemplated herein.

By order of the Public Utilities Commission of New Hampshire this seventeenth day of March, 2006.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary